



Ripple Effect: The Economic Impact of Microlending

*A case study of Opportunity Fund's
Microfinance Program from 1995 to 2009*

May 2010

A Message from Opportunity Fund

Fifteen years ago—when Opportunity Fund was just starting out—we were driven by the idea that access to capital and business advising could make a pivotal difference in the lives of working people. Today, we are pleased to present the results of an independent study from a premier research firm, showing the substantial impact of our work.

To date, Opportunity Fund has made more than \$11 million in loans to the Bay Area's micro-entrepreneurs. These small businesses—the neighborhood taquería, house-cleaning cooperative, family daycare, and landscaping crew—are critical to our economy and vital to our communities. Over the years, we have seen our clients and their families thrive as their businesses grow into sustainable sources of income and assets for the future. And, as the following pages show, the impact is much greater than that. Each business circulates dollars through the regional economy, generating wages and local revenue at every turn.

This economic impact study by TXP quantifies the ripple effect created by Opportunity Fund's loans and the small businesses throughout the Bay Area that received them. As you read the results, I hope you are moved to join me in our mission to build a diverse, vibrant community where opportunity, knowledge, and access to capital are within reach for everyone living in the Bay Area.

Many thanks to The James Irvine Foundation and Silicon Valley Community Foundation for providing the generous support that made this study possible.

Eric Weaver
Founder and CEO

A Message from TXP

At TXP, we focus on helping clients respond to big economic challenges. By blending rigorous economic analysis with an understanding of the wider context, we provide information that enables a community to make better decisions and seize opportunity. In this case, we created a customized econometric model that illustrates the effect of Opportunity Fund's lending on the Bay Area's regional economy.

Our study shows how each dollar lent to a small business—to purchase equipment, lease office space, or hire employees—multiplies as it touches the local economy over time. As a result, the benefits of this effort reach well beyond the immediate loan recipients, and include the regional economy as a whole and taxpayers across the Bay Area. The cumulative effect of Opportunity Fund's lending is a far more robust and sustainable community of local small businesses.

Jon Hockenyos
President

Introduction: The Ripple Effect of Microfinance

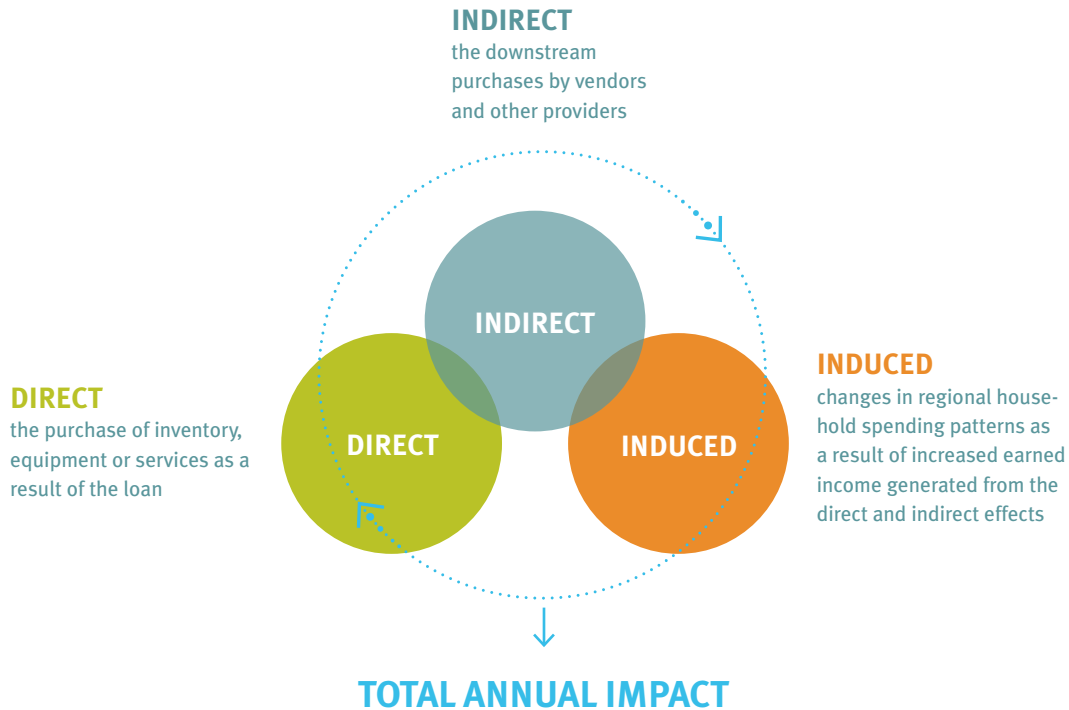
Microfinance programs help entrepreneurs expand their businesses and increase their household incomes, by providing business advising and small amounts of capital to entrepreneurs who cannot access traditional bank loans. Microfinance began in the U.S. in the 1970s, when the need to create an inclusive financial system for the many who lack access to appropriate financial products and services became evident. Communities around the country began experimenting with microlending models to serve these untapped markets, building the case for public and private investment in a new style of economic development. In the 1980s and '90s, U.S. microfinance continued to pick up steam and scale, providing capital to thousands of entrepreneurs and sowing the seeds for a truly inclusive financial system. Today, governments and private institutions alike see microfinance as a key part of sustainable economic policy.

From 1995 to 2009, Opportunity Fund provided more than \$10 million in loans to Bay Area entrepreneurs who could not qualify for financing through a bank. However, this direct investment amount does not reflect the broader impact these loans have had on the local economy. Opportunity Fund provides capital to local businesses; these businesses, in turn, use loan funds to purchase equipment, inventory, and supplies; rent retail and office space; and hire employees. Microenterprises typically purchase goods and services from local suppliers, who then re-invest the added revenue into the local economy.

The purpose of this study is to aggregate these activities—the direct, indirect, and induced economic effects of microfinance—to calculate the “ripple effect” or macroeconomic impact of Opportunity Fund’s lending on the Bay Area economy.

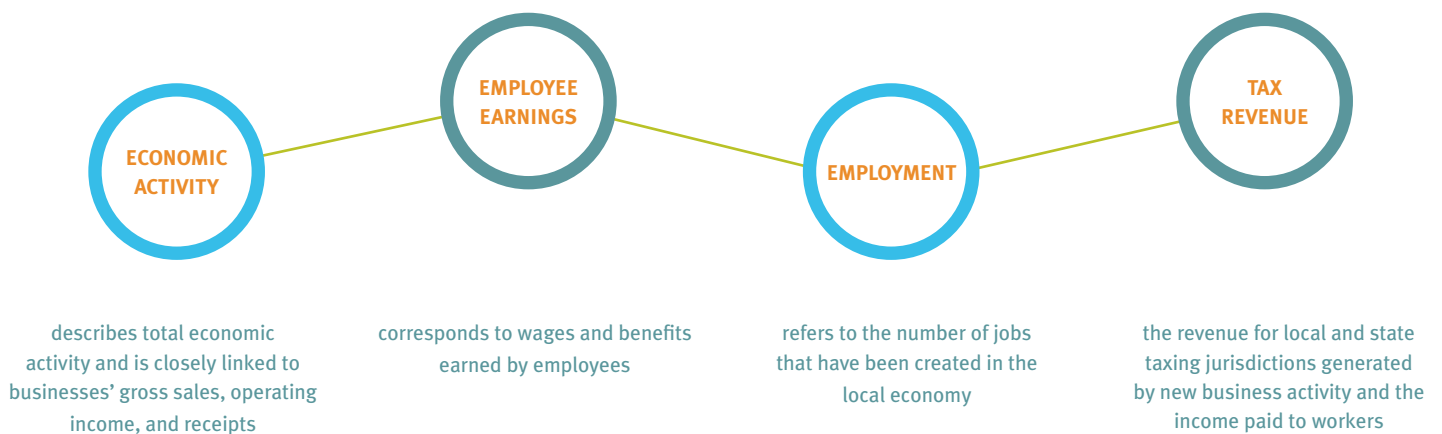
Methodology

TXP used an input-output analysis to measure the impact of Opportunity Fund's lending on new economic activity in the Bay Area. The data set included 906 small business loans made by Opportunity Fund between April 1995 and December 2009 in four Bay Area counties. The analysis takes into consideration three types of expenditure effects:



To start, TXP used Opportunity Fund's \$10.4 million in loans from 1995 to 2009 as the measure of the initial annual injection into the local economy. TXP then measured the anticipated total economic impacts of these loans, using the industry and location of each business and a system of regional input-output multipliers developed by the U.S. Bureau of Economic Analysis called RIMS II.

The study results are grouped by four of the variables typically used to measure and describe economic activity:



Key Findings

The economic impacts of Opportunity Fund's loans extend far beyond the individual borrowers. The provision of capital to small businesses affects the economy in a number of ways. Many of these benefits, however, occur over a number of years after the loan, as businesses grow, add employees, and increase payrolls. Lending to small businesses can have an "evergreen" effect, as a sustainable business by definition provides services to its customers, wages to its employees, and returns to its owners on an ongoing basis.

Opportunity Fund provided over 900 loans and approximately \$10.4 million in total funds between 1995 and 2009. TXP's economic model found these loans to have the following impacts:

→ For every \$1 lent, Opportunity Fund loans generate nearly \$2 in total annual economic activity.

→ Opportunity Fund lending has helped to retain and create more than 1,200 Bay Area jobs.

→ For every \$1 lent, Opportunity Fund creates about \$.50 in additional wage earnings annually.

→ The economic impact of Opportunity Fund's lending to date generates approximately \$740,000 in aggregate tax revenue every year for local and state government.

every new dollar
invested flows through
the regional economy
with a return of 2 to 1

→ Every new dollar invested with Opportunity Fund has a proven return of 2 to 1, as it flows through the regional economy creating new wages, new spending, and new tax revenues.

Economic Impact of Opportunity Fund Loans 1995-2009

\$10,409,592

Opportunity Fund Loans,
1995-2009

\$17,231,551

Total Annual Economic Activity

\$4,792,073

New Annual Wage Earnings

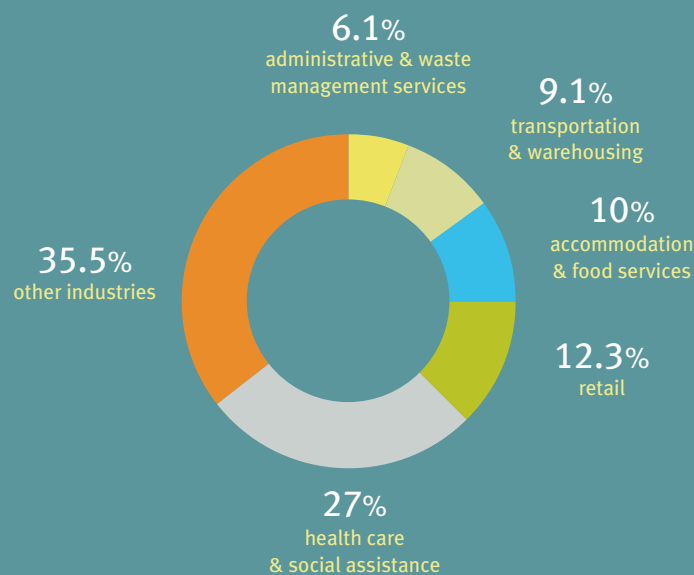
\$737,872

Annual State and
Local Tax Revenue

Impact by Industry

This economic impact analysis is predicated on the industry and location of each borrower, as different industries and regions produce different direct, indirect, and induced economic effects. As shown below, five industries comprise two-thirds of Opportunity Fund's lending activity in the study and generate half of the new annual economic activity.

Loan Volume by Industry



Opportunity Fund's borrowers reflect the incredibly diverse business environment of the Bay Area. Approximately 90% of the borrowers in this study are low- to moderate-income individuals, many of whom are operating small enterprises in industries that don't always require significant formal education or strong English-language skills for success. These industries—childcare, health and wellness, retail, food services, housecleaning, landscaping and trucking—represent the majority of the loans in the study. Other industries include sectors such as construction, wholesale trade, real estate, professional services, manufacturing, educational services, and others.

| | health care & social assistance | retail | accommodation & food services | transportation & warehousing | administrative & waste management services | other industries |
|---------------------------------|------------------------------------|-------------|----------------------------------|---------------------------------|--|------------------|
| \$ LOAN VOLUME | \$ 2,805,787 | \$1,282,470 | \$ 1,044,634 | \$ 951,982 | \$ 637,572 | \$3,687,147 |
| NEW ANNUAL ECONOMIC ACTIVITY | \$ 3,252,137 | \$1,744,029 | \$ 1,307,410 | \$ 1,198,791 | \$ 984,501 | \$8,744,683 |

Impact by County



● Represents areas of Opportunity Fund lending.

From 1995 to 2005, Opportunity Fund served only Santa Clara and San Mateo counties. In 2006, services were expanded to include San Francisco and Alameda Counties. In the subsequent four years, lending volume increased dramatically across all four counties. In 2009, 37% of lending took place in Santa Clara County, 17% in San Mateo County, 22% in San Francisco County, and 24% in Alameda County.

| | total loans funded 1995-2009 | historical % of total loans funded | annual economic activity | new annual wage earnings | annual local & state tax revenue |
|---------------|---------------------------------|---------------------------------------|-----------------------------|-----------------------------|-------------------------------------|
| ALAMEDA | \$ 1,203,492 | 12% | \$ 2,408,979 | \$ 721,211 | \$ 111,050 |
| SAN FRANCISCO | \$ 854,849 | 8% | \$ 1,711,115 | \$ 512,281 | \$ 78,880 |
| SAN MATEO | \$ 1,502,664 | 14% | \$ 3,007,817 | \$ 900,494 | \$ 138,656 |
| SANTA CLARA | \$ 6,848,587 | 66% | \$ 10,103,640 | \$ 2,658,087 | \$ 409,286 |
| TOTAL: | \$ 10,409,592 | 100% | \$ 17,231,551 | \$ 4,792,073 | \$ 737,872 |

Opportunity Fund Borrowers



Plumbwerx

Tonya never imagined she would end up running a plumbing company but, following a series of challenges, that's exactly how she and her husband, Ted, found a way to provide for their family. Plumbwerx Plumbing is a full service plumbing company specializing in all phases of residential and commercial plumbing, especially energy-efficient tankless water heaters.

In 2009 Tonya and Ted found that they were having difficulty managing the increasing demand for their services. "I was getting calls every day from referral partners who wanted us to provide all types of plumbing services, but I had to turn them down because we didn't have the manpower to meet demand," said Tonya. They needed funding to expand the business, but did not meet banks' strict requirements to secure a small business loan. A community organization that they had sought business advice from suggested they contact Opportunity Fund.

With a \$10,000 loan from Opportunity Fund, Plumbwerx purchased an equipment truck from a local specialty dealer in nearby Fremont, CA and hired a full-time plumber, allowing them to accept more clients. As sales increased, they then expanded into a larger space and hired additional part-time plumbers and a part-time office employee. Tonya and Ted are excited that Plumbwerx' growth allows them to contribute to the health of their own community.



The Watershed Nursery

As co-owners of The Watershed Nursery, Diana and Laura are working to rehabilitate the local environment in the most literal sense. The Nursery focuses on native plants for California and primarily serves Bay Area city and county governments, as well as local nonprofits implementing much-needed restoration work.

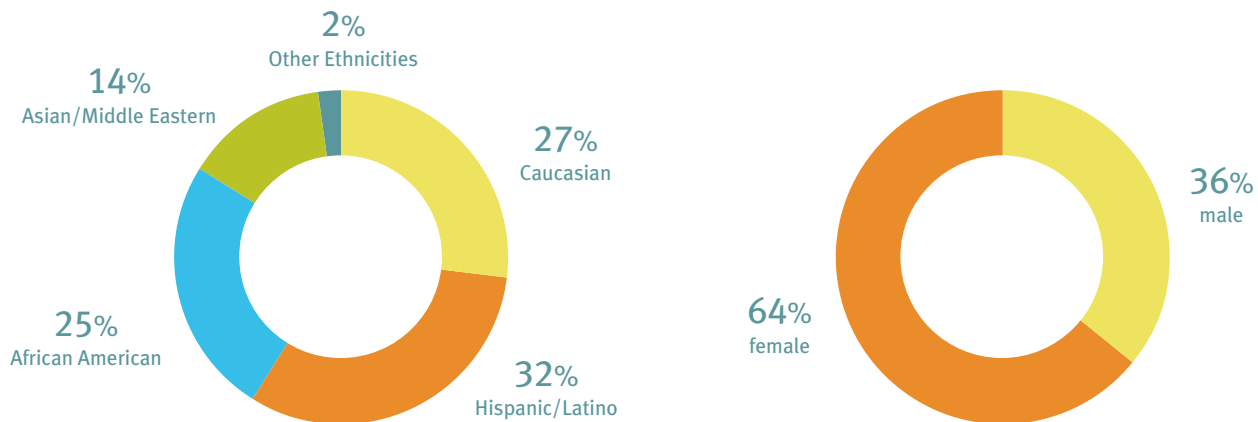
With help from a loan from Opportunity Fund, Diana and Laura moved The Watershed Nursery from the Berkeley hills to a new location just off the freeway. In this accessible site, sales increased greatly and they hired several new employees. The team now includes six production crew members and three field crew members who provide expertise for restoration projects. Watershed has begun to offer new services as well, such as monthly workshops to help attract new home gardening clients.

Diana and Laura's passion for gardening and their commitment to native and local products is what makes The Watershed Nursery a successful business and an important part of the Bay Area's economy.

Program Facts

All data is based on loans from program inception through 12/31/09.

Opportunity Fund Borrowers

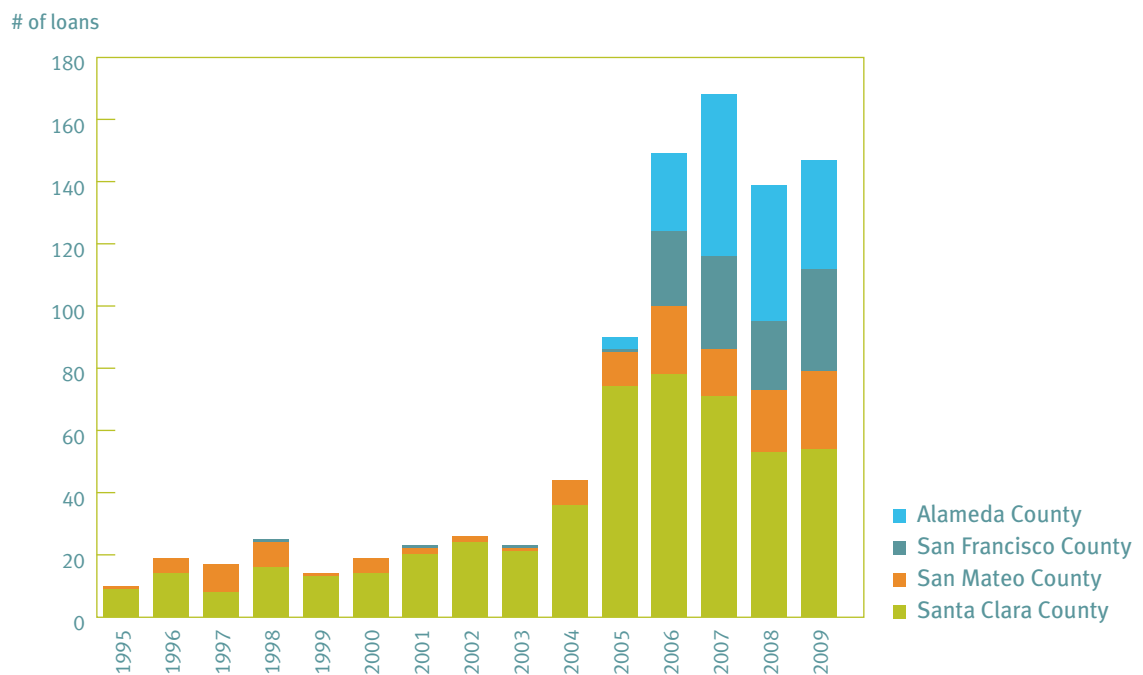


90% of borrowers are low- to moderate-income
(defined as having an Adjusted Gross Income of 80% or less of area median income)

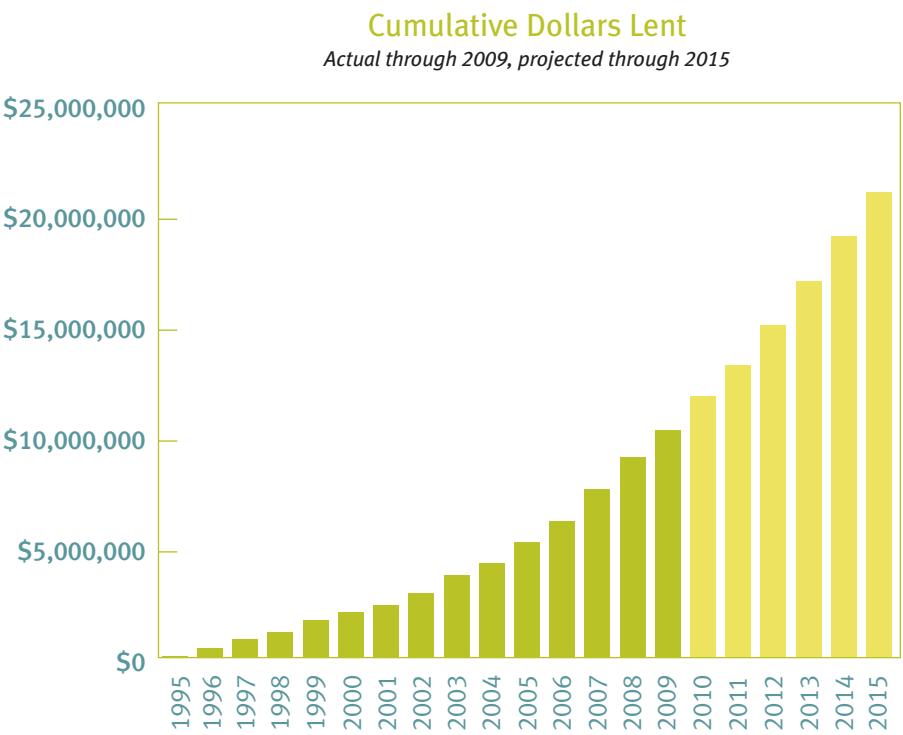
Loans At-A-Glance

- loan size: \$500-\$100,000
- 1-7 year loan terms
- fair, fixed interest rates
- historical average loan size: \$11,700
- historical median loan size: \$7,000

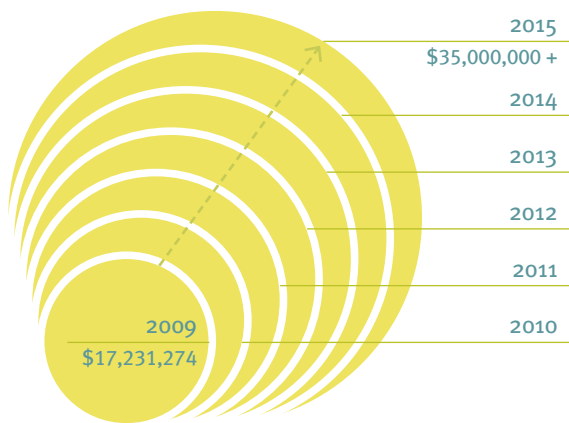
Annual Lending by County



A Look Forward



Projected Economic Activity



Opportunity Fund loans promote economic stability, create jobs, strengthen small businesses, and generate local tax revenues. These economic impacts are replicable and scalable. The program’s lending has increased dramatically in recent years, with two-thirds of lending taking place over the past 5 years. In the coming years, as the financial system stabilizes and small business owners position themselves for further growth, Opportunity Fund anticipates robust increases in lending, leading to an ever-greater regional economic impact.

Considering that Opportunity Fund’s lending to date has resulted in a nearly 2:1 return in annual economic activity, ongoing benefit to the regional economy can be projected reliably into the future. If Opportunity Fund reaches \$20 million in cumulative dollars lent by 2015, Bay Area economic activity will increase to at least \$35 million per year.

Beyond the quantifiable economic impacts outlined in this report, Opportunity Fund programs help individuals build assets, develop skills, and gain greater economic security. Seen in this light, Opportunity Fund lending represents a huge social return on investment to microfinance investors and the individuals and communities who participate.



Opportunity Fund is a community development financial institution (CDFI) that advances the economic well-being of working people. Opportunity Fund achieves broad and deep impact in local and regional economies through an innovative model that incorporates small business lending, matched savings accounts, and community real estate lending. These award-winning programs have helped over 10,000 people to earn, save and invest in their future and have directed \$150 million into low-income communities throughout the San Francisco Bay Area.

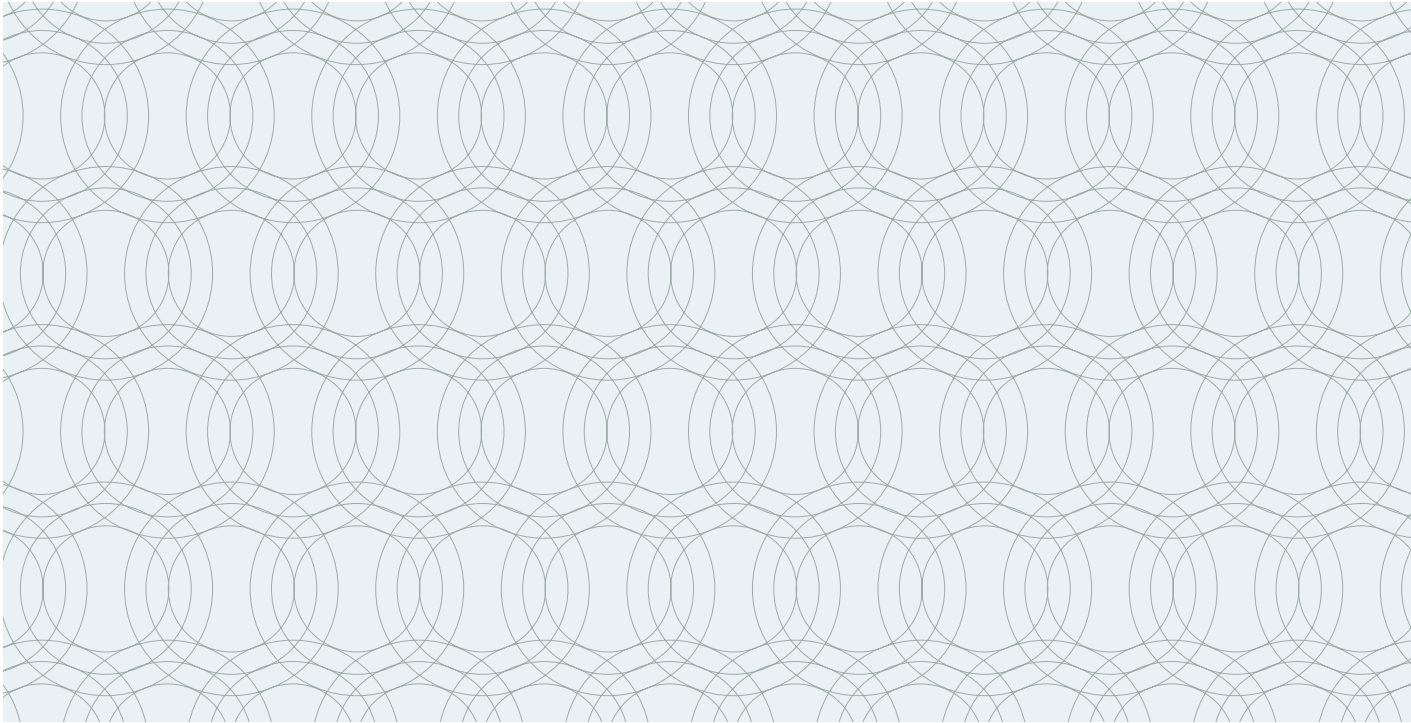
As Northern California's largest microlender, Opportunity Fund has invested over \$11 million in local small businesses to date. Through its IDA matched savings program, one of the largest in the country, Opportunity Fund has provided more than 3,000 working families with the financial education and matching funds they need to save, build assets, and enter the financial mainstream. These clients combined have saved and invested their own savings and matching funds of more than \$11 million toward an education, small business, homeownership, or fees to apply for U.S. citizenship. Opportunity Fund's real estate lending has provided more than \$90 million in financing to community facilities like childcare centers, health clinics, schools, and housing developments, with over 7,000 units of affordable housing financed to date.



TXP is an economic analysis and public policy consulting firm founded in 1987 in Austin, Texas. TXP's team of economic and public policy experts provides its clients with guidance and easy to comprehend answers to difficult economic questions. As part of that effort, TXP builds customized econometric models that simulate regional economies to measure standard economic impact results and an individual project's effect on the local tax base including sales, city and county ad valorem, and hotel/motel taxes.

In 2005, TXP developed a model to measure the macroeconomic effect of ACCION Texas' microlending program, with an update in 2008. The resulting report has allowed ACCION Texas to assess the total state-wide economic activity resulting from its lending over a 15-year period. Using a similar model, this report analyzes the economic impact of Opportunity Fund's historical lending in the San Francisco Bay Area.

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Opportunity Fund

111 West St. John Street, Suite 800
San Jose, CA 95113

Phone: (408) 297-0204
Web: opportunityfund.org
Twitter: [@opportunityfund](https://twitter.com/opportunityfund)

TXP, Inc.

1310 South 1st Street, Suite 105
Austin, Texas 78704

Phone: (512) 328-8300
Web: txp.com